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NICARAGUA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment			
Nominal GDP 2/	2,018.3	2,099.0	2,231.2
Real GDP Growth (pct) 2/3/4	5.0	4.0	6.3
GDP by Sector: 2/			
Agriculture 4/	575.0	632.5	663.5
Manufacturing	418.9	431.2	479.9
Services 5/	865.6	887.2	941.3
Government	158.2	148.2	145.1
Per Capita GDP (US$)	436.0	431	453.7
Labor Force (000s)	1,567.5	1,630.1	1,695.4
Unemployment Rate (pct)	14.3	12.3	11.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	50.1	20.0	21.9
Consumer Price Inflation (pct)1	7.3	18.5	10.5
Exchange Rate (Cordobas/US$ - annual average)			
Official	9.5	10.5	11.6
Parallel	9.5	10.6	11.7
Balance of Payments and Trade			
Total Exports FOB 6/	703.6	573.2	573.7
Exports to U.S. 7/ 350	439	453.0	486.0
Total Imports CIF 6/	-1,371.4	-1,383.6	-1,593.1
Imports from U.S. 7/	-290	-337.0	-370
Trade Balance 6/	-667.8	-810.4	-1,019.4
Balance with U.S. 7/	149	116	116
External Public Debt (US$ bns)	6.1	6.2	6.5
Fiscal Deficit/GDP (pct)	7.5	2.2	3.0
Current Account Deficit/GDP (pct)	40.3	39.0	38.0
Debt Service Payments/GDP (pct)	19.4	15.6	16.0

Gold and Foreign Exchange Reserves	387.0	356.0	400.0
Aid from U.S. /8	27.0	70.0	N/A
Aid from All Other Sources	292.0	N/A	N/A

1/ All 1999 figures are Central Bank projections based on data available in October 1999.

2/ 1997 and 1998 GDP data revised by Central Bank in October 1999.

3/ Percentage changes calculated in local currency.

4/ Includes livestock, fisheries, and forestry.

5/ Includes construction and mining.

6/ Merchandise trade.

7/ Source: U.S. Department of Commerce; 1999 figures are estimates based on trade data through August 1999.

8/ Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy grew by 4 percent in 1998. To foster macroeconomic stability, the Aleman administration signed an Economic Structural Adjustment Facility (ESAF) program with the IMF in January 1998. Growth in 1999 is projected at 6.3 percent.

At the end of its third year in office, the Aleman administration faced important economic challenges including: meeting the targets of an Enhanced Structural Adjustment Facility (ESAF) with the International Monetary Fund; reconstructing infrastructure devastated by Hurricane Mitch; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere's second-poorest nation. Nicaragua's large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most non-tariff barriers. Private investment, from both domestic and foreign sources, is rising and the private banking sector continues to expand. Agriculture, construction, and the export sector have led Nicaragua’s recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily. The GON reduced the devaluation rate at 9 percent in July 1999 and planned to reduce it further to 6 percent by the end of the year. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was under one half-percent in 1999. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. However, in the past, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices. However, that control no longer exists.

Tax Policies: Nicaragua is in the process of implementing progressive import tax reductions through the year 2002. Since January 1998, Nicaragua has imposed regular import duties (DAI) of 15 percent on final consumption goods and 10 percent on intermediate goods (there is no DAI on raw materials and capital goods produced outside of Central America, but raw materials and capital goods imported form any Central American country carries a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent. The maximum rate of the combined DAI and ATP is 25 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items that generally is lower than 15 percent. DAI, ATP and IEC are based on CIF value. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Importers of many items face a total import tax burden of 15 to 45 percent. In November 1999, Nicaragua raised tariffs on corn, sorghum, and rice in response to low world prices. This increase was done as a presidential decree, which must be renewed every thirty days.

Nicaragua's 1997 tax reform law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-tariff barriers on imports; b) eliminated the discretion of government officials to exonerate tariffs; c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms; d) established a "rebate" of 1.5 percent of FOB value for all exports; e) eliminated IGV on several activities; g) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000; h) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange; and i) set a schedule of progressive import tax reductions through the year 2002.

In March 1999, the National Assembly passed a new package of reforms that situated Nicaragua ahead of the rest of the Central American countries in lowering tariffs and reducing exemptions. The reform established: a) tax exemptions for NGOs (non-governmental organizations) as long as they perform non-profit activities; b) exemptions on import taxes (DAI), luxury taxes (IEC), and sales taxes (IGV) for hospital investments; c) simplified taxes on vehicles based on engine size (this reform helped alleviate the discriminatory tariff treatment on some U.S. vehicles that have bigger engines than their Japanese competitors); exemption of DAI, ATP and IGV on crude or partially-refined petroleum, as well as on liquid gas and other petroleum derivatives; e) intermediate goods, and raw materials destined for the agricultural sector, small handicraft industry, fishing and aquaculture. In December 1999, Nicaragua instituted a 35 percent tariff on all goods from Honduras as a retaliatory measure for Honduras signing a maritime border delineation agreement with Colombia.

4. Debt Management Policies

The previous administration of Violeta Chamorro inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next eight years, Nicaragua negotiated a series of deals that reduced its stock of debt to $6.2 billion. Despite this progress, Nicaragua's debt, at almost three times GDP, remains high. Accordingly, the Aleman government has made debt reduction a top priority. In April 1998, the Paris Club creditors and the Nicaraguan government reached an agreement on the terms and conditions for reducing and rescheduling Nicaragua's official debt. In response to damage caused by Hurricane Mitch, the Paris Club agreed in December 1998 to defer all debt service payments through February 2001. Another promising avenue for debt reduction of multilateral debt is through the Heavily Indebted Poor Countries (HIPC) Initiative. Largely because of its strong economic performance, Nicaragua was admitted in the HIPC program in late 1999. However, the HIPC decision point (conclusion of negotiations over HIPC progress indicators) had not been reached by year's end.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the United States are also major donors. Since 1990, the United States has provided more than $1 billion in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. In May 1999 as part of relief for damage caused by Hurricane Mitch, donor countries in Stockholm for a Consultative Group meeting agreed to provide Nicaragua with nearly $3 billion in assistance and concessionary loans; this figure included funds already disbursed immediately following Hurricane Mitch. The U.S. commitment totaled nearly $100 million. Nicaragua is not believed to receive extensive amounts of military equipment from any third country, although Spain, Mexico, Taiwan, and France, among others, do provide training.

6. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products must meet some phytosanitary requirements.

Services Barriers: Although 11 private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. insurance company has entered the Nicaraguan market, either.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after investment is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The U.S. Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch. Expropriation still remains a problem, as the government has failed to set up property courts as promised to resolve the expropriations that occurred under the Sandinista government.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs. Nicaragua has committed itself to implement WTO customs valuation procedures by September 2000, which will end the use of reference prices to determine import tax valuations.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996, Nicaragua ratified the United States-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has not yet been submitted to the U.S. Senate for ratification.

7. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax.

8. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention.

The government has indicated a firm commitment to providing adequate and effective intellectual property rights protection. However, current levels of protection still do not meet international standards. Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is working to modernize its intellectual property rights regime. In January 1998, Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals. In 1999, the National Assembly approved a new copyright law, a plant variety protection law, and a law on the protection of satellite signals. Draft laws on integrated circuit design and patents still require a vote in the National Assembly. The Presidency is reviewing draft laws on trademarks.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Pirated videos are readily available in video rental stores nationwide, as are pirated audiocassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues despite a trend of negotiating contracts with U.S. sports and news satellite programmers. According to estimates by the International Intellectual Property Alliance (IIPA), U.S. copyright-based industries' losses in Nicaragua due to piracy were $5.7 million in 1998. On August 21, 1999, the new copyright law went into effect; however, criminal penalties are delayed for 6-12 months. The U.S. Government and the industry hope to work with the Nicaraguan Government to provide training for effective enforcement.

9. Worker Rights

a. The Right of Association: The Constitution provides for the right of workers to organize voluntarily in unions. The 1996 labor code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The Constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. The Right to organize and Bargain Collectively: The Constitution provides for the right to bargain collectively. According to the 1996 labor code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. Prohibition of Forced or Compulsory Labor: The Constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. Minimum Age for Employment of Children: The Constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits work at night. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the small, formal sector of the economy.

e. Acceptable Conditions of Work: The 1996 labor code maintains the constitutionally mandated 8-hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay shall be from one to five months' duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, but the majority of urban workers earn well above the minimum rates.

f. Rights in Sectors with U.S. Investment: Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing:		4
Food & Kindred Products	0	
Chemicals & Allied Products	4	
Metals, Primary & Fabricated	(2)	
Machinery, except Electrical	0	
Electric & Electronic	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		153

(1) Suppressed to avoid disclosing data of individual companies
(2) Less than US$ 500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis